

**Assist Audit Report  
of Fiscal Years 1998 Through 2001  
Incurred Costs  
on Subcontract Number 862067A**

**April 2003**

**Reference Number: 2003-1C-086**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 21, 2003

MEMORANDUM FOR DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

FROM: Daniel R. Devlin  
Assistant Inspector General for Audit (Headquarters Operations  
and Exempt Organizations Programs)

SUBJECT: Assist Audit Report of Fiscal Years 1998 Through 2001 Incurred  
Costs on Subcontract Number 862067A (Audit #200310002.028)

In response to your request, the Defense Contract Audit Agency (DCAA) examined the subcontractor's incurred cost proposal (undated) and related books and records for reimbursement of costs related to its indefinite-delivery, indefinite-quantity time and material subcontract during the subcontractor's Fiscal Years (FY) 1998 through 2001. The purpose of the examination was to determine allowability and allocability of direct costs and establish audit determined subcontract costs for FYs 1998 through 2001.

For FYs 1998, 1999, and the first month of FY 2000 (January), the DCAA does not consider the subcontractor's timekeeping system adequate to accumulate, report, and bill on Federal Government contracts. However, for the remaining months of FY 2000 (February through December) and FY 2001, the DCAA considers the subcontractor's accounting system adequate for the accumulation, reporting, and billing of costs on Federal Government contracts.

The DCAA opined that the claimed direct costs are acceptable and provisionally approved pending final acceptance. However, the DCAA made the following qualifications:

- The DCAA was unable to reconcile the subcontractor's direct labor hours recorded on invoices to the contractor prior to February 2000 because timesheets were not retained.

- The DCAA was unable to verify that the subcontractor's billed direct labor hours to the contractor relate only to authorized tasks.
- The DCAA was unable to verify whether the subcontractor's invoices are based on direct labor hours originally recorded on timesheets.

The DCAA indicated that its audit results are qualified to the extent that questioned costs may exist due to lack of timesheets, billed labor hours relating to unauthorized tasks, and unauthorized changes to recorded labor hours in the subcontractor's database. Additionally, the DCAA did not perform any real time audits of its accounting system and related timekeeping system.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

# NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

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